

## Iowa Tax

The quarterly newsletter of the Iowa Department of Revenue and Finance

## Some beneficiaries will avoid inheritance tax under new law

On February 11, 1997, the governor signed Senate File 35. Effective July 1, 1997, this law eliminates Iowa inheritance tax previously imposed on property, income or interest received by lineal ascendants, descendants and stepchildren. Specifically, this bill eliminates the inheritance tax on property of a decedent dying on or after July 1, 1997, when that property passes to:

- parents, grandparents, great-grandparents and other lineal ascendants.
- children (including adopted and biological children entitled to inherit under Iowa law), stepchildren, grandchildren, great-grandchildren and other lineal descendants.

Currently, Iowa law only provides this type of exemption from inheritance tax to a surviving spouse. Under this new law, the exemption for a surviving spouse remains and has been expanded to include the previously mentioned classes of beneficiaries. Inheritance tax liability for non-lineal heirs such as siblings, cousins, aunts, uncles and non-related beneficiaries remains the same.

Note that while the new law eliminates inheritance tax in the cases described, this does *not* mean that all estates which have property passing to these exempt individuals will avoid death tax liability altogether. Certain estates may still have an Iowa estate tax liability.

## Health insurance premiums, Medicare 'B' may be deductible on line 18 of IA 1040

Iowa taxpayers who pay for their own health insurance may qualify to deduct 100% of the premium payments they made in 1996 on their Iowa income tax return. This includes not only typical health insurance, but also Medicare B supplemental insurance premiums.

The deduction is taken on line 18 of the 1996 IA 1040.

This deduction is not limited to self-employed individuals.

Premium payments and insurance plans which are *not* deductible include:

- Premiums that are pre-tax do *not* qualify. "Pretax" is when an employer subtracts the amount of the premium

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## DEPARTMENT SERVICES

### ONLINE

*Internet Address (URL)*

[http://www.state.ia.us/  
government/ia1040x](http://www.state.ia.us/government/ia1040x)

*E-mail*

[ia1040x@ia1040x.e-mail.com](mailto:ia1040x@ia1040x.e-mail.com)

### BY TELEPHONE

*Taxpayer Services*

from Des Moines  
or out of state,

(515) 281-3114

from elsewhere in Iowa or  
Rock Island-Moline or Omaha

1-800-367-3388

*To Order Iowa Tax Forms*

(515) 281-7239 or  
1-800-532-1531

*"Where's My Refund?"*

(515) 281-4966 or  
1-800-572-3944

### BY FAX

*Receive Iowa Tax Forms by Fax*

1-800-572-3943

*Department Fax Number*

(515) 242-6040

### BY MODEM

*ERIN (electronic bulletin board)*

(515) 281-3248 or  
1-800-972-2028

# New IA 1040X to be used for all amended income tax returns

In July 1996, the department revised the IA 1040X to simplify the information necessary to complete the form. This new form no longer requires information from the "originally filed" return to be repeated.

The IA 1040X is now required for all amended returns, prior and current year. This also includes the current year amended returns that were previously submitted by writing "amended" at the top of the 1040(A) return.

Practitioners are asked to destroy any forms dated prior to July 1996. New forms are available in the Iowa Package X and may also be obtained from our Tax-Fax system by calling toll

free 1-800-572-3943 and requesting document 96-41-122 or by calling our toll free forms order line at 1-800-532-1531.

### ***Department urges use of 'Where's My Refund' line***

Iowa taxpayers and practitioners are being urged to use the department's toll free "Where's My Refund" telephone number when checking the status of income tax refunds. The number to call is 1-800-572-3944. Callers from the Des Moines area or from outside of Iowa should call (515) 281-4966. You must supply the first Social Security number listed on the return and the exact amount of the refund you are expecting.

## Health insurance premiums may be deductible

*continued from page 1*

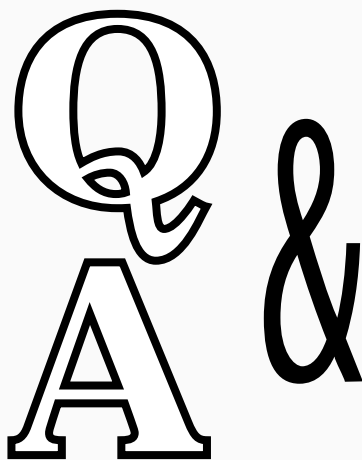
from an employee's wages before applying federal and state income taxes.

- For 1996, most long-term care insurance does *not* qualify. Long-term premiums qualify if they can be deducted as medical expenses on the 1996 federal return
- Premiums paid by an employer-sponsored health insurance plan (cafeteria plan) do *not* qualify unless they were included as part of taxable income on the W-2.

Taxpayers who qualify should

use the Iowa income tax long form. Taxpayers do not need to itemize to take advantage of this deduction.

It is to a taxpayer's advantage to report on line 18 of the Iowa 1040 the amount of health insurance premiums that qualify. However, if you itemize deductions on Schedule A and have included any health insurance premiums under medical and dental expenses, then you must reduce the medical and dental expense deduction on Schedule A by the amount of health insurance premiums deducted on line 18 of the IA 1040.



**Question:** *I am an Illinois-based construction contractor who frequently builds in Iowa. If I purchase materials in Illinois for use in an Iowa building project, do I have any Iowa tax liability on those materials?*

**Answer:** If you paid Illinois sales tax on the materials and were legally required to do so, Iowa allows a credit for those taxes. (If the other state's sales tax rate is higher than or equal to Iowa's 5 percent rate, no Iowa tax is due. If the sales tax rate in the other state is less than 5 percent, the contractor pays the difference to Iowa.) Note

that if you paid Illinois sales tax on the materials at the time of purchase – but were not *legally required* to do so – Iowa will not allow a credit. If you did not pay Illinois sales tax on the materials you use in Iowa, you must pay Iowa use tax on the materials. Do this by applying for an Iowa Retailer's Use Tax Permit and reporting the tax due for out-of-state purchases on line 2 of your return.

**Question:** *We sell dyed diesel fuel to contractors in Iowa. Since this sale is not subject to motor vehicle fuel tax, do we charge any tax at all?*

**Answer:** The sale of dyed diesel fuel to contractors for off road use is subject to Iowa sales tax. The seller of the fuel is responsible for collecting and remitting the 5 percent sales tax. Local option sales tax does *not* apply. The contractor is responsible for remitting 5 percent tax on such purchases if the sales tax is not properly charged.

### Current Iowa Fuel Tax Rates

Gasoline	\$.20 per gallon
Ethanol Blended Gasoline	\$.19 per gallon
Aviation Gasoline	\$.08 per gallon
Special Fuel (Diesel)	\$.225 per gallon
Special Fuel (LPG)	\$.20 per gallon
Special Fuel (Aviation)	\$.03 per gallon
Compressed Natural Gas	\$.16 per 100 cu. ft.

### From the DIRECTOR'S DESK

It seems that more evidence is available each week to verify the growing influence and benefit of new technologies in delivering services to business customers. Here in our agency, we continue to see the rewards of investing in technology-based programs.

After the first two weeks of February, nearly 55,000

Iowa income tax returns had been received electronically. This figure represents



a 40 percent increase from the same time a year ago. It also puts the growth rate of Iowa's electronic income tax filing program ahead of the national average for other states (28 percent average growth) and the Internal Revenue Service (14.6 percent growth). Already, more than 2,200 "balance due" returns have been filed electronically in this first filing season for allowing transmission of such returns.

We are proud of this filing program and attribute its success to the hard work of our talented staff in developing, marketing and testing this fine new service.

# Iowa form 1040C redesigned for '96

**I**owa's 1040C, the Composite Return, which may be used by nonresident S corporation shareholders, beneficiaries or members of a partnership or trust to join in filing a single individual income tax return has been redesigned. It can be used when the nonresident has income from Iowa sources greater than one standard deduction plus an amount of income to offset one personal exemption at the effective tax rate.

The form and instructions have been revised to help filers avoid some common problems.

- The instructions have been updated to show minimum dollar filing requirements for each tax bracket.
- A statement involving a \$1,000 threshold has been removed from the instructions to simplify understanding of the income filing requirement.
- The exemption credit line has been changed to facilitate the correct computation.
- A line has been added to the form for any applicable penalty due.
- A line has been added to the form for any applicable interest due.

Those considering filing on a composite basis on the 1040C need to obtain prior approval from the department. An application letter must include the name, address, and federal identification number of the S corporation, partner-

ship or trust and must be sent to:

Examination Section  
Audit and Compliance Division  
P.O. Box 10456  
Des Moines, IA 50306.

The department will review

each application to determine eligibility. Once permission to file on a composite basis is granted, the taxpayer must continue to file composite returns until they notify the department in writing that they wish to discontinue.

## Iowa cow-calf refund questions answered

**Q:** *Can farmers get credit on form IA 132 from cattle they purchased as calves if the cattle are sold at a weight of 700 pounds or more?*

**A:** Yes, if the requirements for a qualifying cow-calf operation are met. The majority of the cattle in the operation must be born and raised in the operation. The cattle must be in the operation two months or more at the time of sale.

**Q:** *Do the sales of bred cows or breeding bulls sold in the tax year qualify for the cow-calf refund?*

**A:** They do if they are sold at weights of 700 pounds or more. Of course, all other requirements must be met as well,

including the two-month minimum holding period.

**Q:** *One of the qualifications for the cow-calf credit is the claimant must have less than \$1 million net worth. How is "claimant" defined?*

**A:** The claimant is the individual or C-corporation that qualifies to file for the cow-calf refund with the tax return. The less than \$1 million net worth requirement does not apply to an S corporation, partnership or other entity from which the claimant is entitled to claim a refund based on the claimant's ownership interest in the entity.

Note that the maximum cow-calf refund is \$3,000.

## Jurisdictions impose local option sales tax

**V**oters in the following 17 jurisdictions have adopted the local option sales tax effective April 1, 1997. The counties and county codes are listed in bold. A complete list of all current local option sales tax jurisdictions can be obtained by calling our fax-on-demand system at 1-800-572-3943. Order form number 96 79 901. The list is

also available on our website.

**Chickasaw (19)** – Alta Vista, Bassett, Fredericksburg, Ionia, Lawler, Nashua, New Hampton, North Washington, Unincorporated Area

**Dickinson (30)** – Lake Park, Okoboji, Orleans, Spirit Lake, Superior, Terril

**Ida (47)** – Galva

**Scott (82)** – Durant

# IOWA LOCAL OPTION SALES TAX

Jurisdiction codes effective for the quarter beginning April 1, 1997

••• All jurisdictions listed below have imposed the local option tax at a rate of 1 percent •••

COUNTY / CODE	JURISDICTIONS	EFFECTIVE	COUNTY / CODE	JURISDICTIONS	EFFECTIVE
ALLAMAKEE / 03	Harpers Ferry, Postville, Waterville	1-1-95	HOWARD / 45	Chester, Cresco, Lime Springs, Protivin	1-1-94
	Waukon	1-1-96		Elma, Unincorporated Area	7-1-94
	Lansing, New Albin	7-1-96		Riceville	1-1-95
BLACK HAWK / 07	Cedar Falls, Elk Run Heights, Evansdale, Hudson, Raymond, Waterloo	4-1-91	IDA / 47	Galva	4-1-97
	Dunkerton, Gilbertville, Janesville, La Porte City, Unincorporated Area	10-1-91	IOWA / 48	Ladora, North English, Parnell, Williamsburg	4-1-94
BOONE / 08	Berkley, Luther, Pilot Mound	4-1-89		Marengo, Millersburg, Victor, Unincorporated Area	4-1-95
	Boone	7-1-90	JACKSON / 49	Baldwin, La Motte, Miles, Preston, Sabula, Saint Donatus, Spragueville, Springbrook, Bellevue, Zwingle	4-1-91
	Boxholm, Ogden, Sheldahl, Unincorporated Area	1-1-91		Maquoketa, Monmouth	10-1-94
	Madrid	7-1-91		Andrew, Unincorporated Area	1-1-95
	Fraser	1-1-92	JONES / 53	Cascade, Center Junction, Morley, Olin, Onslow, Oxford Junction	4-1-95
	Beaver	1-1-95		Monticello, Wyoming	1-1-96
BUCHANAN / 10	Aurora, Lamont, Stanley	10-1-95	LEE / 56	Fort Madison, Franklin, Keokuk, Montrose	10-1-91
BUENA VISTA / 11	Albert City, Linn Grove, Marathon, Newell, Sioux Rapids, Truesdale,	7-1-91		St. Paul	1-1-93
	Alta, Lakeside, Rembrandt, Storm Lake, Unincorporated Area	10-1-95		Donnellson, Houghton, West Point, Unincorporated Area	1-1-95
BUTLER / 12	Allison, Aplington, Aredale, Bristow, Dumont, Greene, New Hartford, Parkersburg	1-1-97	LINN / 57	Bertram	1-1-86
CASS / 15	Anita, Cumberland, Griswold, Lewis, Marne, Massena, Wiota	1-1-97	LYON / 60	Alvord, Doon, George, Inwood, Lester, Little Rock, Rock Rapids, Unincorporated Area	10-1-96
CERRO GORDO / 17	Clear Lake, Dougherty, Mason City, Meservey, Plymouth, Rock Falls, Rockwell, Swaledale, Thornton, Ventura	7-1-92	MAHASKA / 62	Barnes City, Beacon, Fremont, Keomah Village, Leighton, New Sharon, Oskaloosa, Rose Hill, University Park, Unincorporated Area	4-1-95
	Unincorporated Area	1-1-93		Eddyville	10-1-95
CHEROKEE / 18	Aurelia, Cleghorn, Larrabee, Marcus, Meriden, Washta	7-1-96	MARSHALL / 64	Liscomb	1-1-97
CHICKASAW / 19	Alta Vista, Bassett, Fredericksburg, Ionia, Lawler, Nashua, New Hampton, North Washington, Unincorporated Area	4-1-97	MILLS / 65	Emerson, Henderson, Malvern, Tabor	1-1-96
CLAYTON / 22	McGregor	1-1-90	MITCHELL / 66	Carpenter, Mitchell, Orchard, Osage, Riceville, St. Ansgar, Stacyville	1-1-95
	Elkader, Garnavillo, Luana, Millville, Marquette, Saint Olaf	4-1-94		McIntire, Unincorporated Area	7-1-95
	Elkport, Farmersburg, Garber, Guttenberg, Littleport, Monona, Volga	10-1-94	MONONA / 67	Blencoe, Castana, Mapleton, Moorhead, Onawa, Rodney, Soldier, Turin, Ute, Whiting, Unincorporated Area	7-1-90
	Edgewood, North Buena Vista, Strawberry Point, Unincorporated Area	10-1-95	MONTGOMERY / 69	Coburg, Elliott, Stanton, Villisca	1-1-96
CLINTON / 23	Andover, Calamus, Camanche, Clinton, Delmar, De Witt, Goose Lake, Grand Mound, Low Moor, Toronto, Welton, Wheatland, Charlotte, Lost Nation, Unincorporated Area	10-1-89		Grant	4-1-96
DECATUR / 27	Davis City, Decatur, Garden Grove, Grand River, Lamoni, Leroy, Pleasanton, Van Wert	1-1-97	MUSCATINE / 70	Atalissa, Conesville, Fruitland, Muscatine, Stockton, Wilton	7-1-94
DELAWARE / 28	Colesburg, Delaware, Delhi, Earlville, Greeley, Manchester, Masonville,	10-1-94		Nichols, Unincorporated Area	1-1-95
	Dundee, Dyersville, Hopkinton, Ryan, Unincorporated Area	4-1-95		Durant, West Liberty	7-1-95
	Edgewood	4-1-96	O'BRIEN / 71	Archer, Calumet, Paullina, Primghar, Sanborn, Sheldon, Sutherland, Unincorporated Area	1-1-96
DES MOINES / 29	Burlington, Danville, Middletown, West Burlington	10-1-94	PAGE / 73	Blanchard, Braddyville, Coin, College Springs, Essex, Shambaugh, Shenandoah, Yorktown	1-1-96
	Mediapolis, Unincorporated Area	4-1-95		Clarinda, Hepburn, Northboro, Unincorporated Area	7-1-96
DICKINSON / 30	Lake Park, Okoboji, Orleans, Spirit Lake, Superior, Terril	4-1-97	POLK / 77	Polk City	1-1-86
DUBUQUE / 31	Asbury, Balltown, Centralia, Dubuque,	4-1-88		Sheldahl	7-1-87
	Holy Cross, Sageville, Zwingle		POTTAWATTAMIE / 78	Macedonia, Minden	1-1-89
	Bankston, Bernard, Epworth, Farley, Graf, Peosta, Sherrill, Unincorporated Area	7-1-88		Council Bluffs	4-1-90
	Cascade, Dyersville, Luxemburg, New Vienna, Rickardsville, Worthington	10-1-89		Avoca, Carson, Carter Lake, Crescent, Hancock, McClelland, Neola, Oakland, Treynor, Underwood, Walnut	1-1-95
FAYETTE / 33	Arlington, Clermont, Elgin, Hawkeye, Maynard, Oelwein, Randalia, St. Lucas, Wadena, Waucoma, Westgate	1-1-95		Unincorporated Area	4-1-95
	Fayette, West Union, Unincorporated Area	7-1-95	SCOTT / 82	Bettendorf, Blue Grass, Buffalo, Davenport, Dixon, Donahue, Eldridge, LeClaire, Long Grove, Maysville, McCausland, New Liberty, Panorama Park, Princeton, Walcott, Riverdale, Unincorporated Area	1-1-89
FLOYD / 34	Floyd, Marble Rock, Nora Springs, Rockford, Rudd	10-1-96		Durant	4-1-97
FRANKLIN / 35	Coulter, Dows, Geneva, Hansell, Latimer, Sheffield	10-1-95	SIoux / 84	Alton, Boyden, Chatsworth, Granville, Hawarden, Hull, Ireton, Matlock, Maurice, Orange City, Sioux Center, Unincorporated Area	10-1-95
	Hampton, Popejoy, Unincorporated Area	10-1-96		Hospers, Rock Valley, Sheldon	7-1-96
FREMONT / 36	Farragut, Hamburg, Imogene, Randolph, Riverton, Shenandoah, Sidney, Tabor, Thurman, Unincorporated Area	1-1-96	STORY / 85	Ames, Huxley	1-1-87
HANCOCK / 41	Corwith, Crystal Lake, Garner, Goodell, Kanawha, Klemme, Woden	1-1-96		Cambridge, Collins, Colo, Gilbert, Kelley, McCallsburg, Roland, Sheldahl, Slater, Unincorporated Area	7-1-87
	Britt	1-1-97		Nevada, Maxwell, Zearing	1-1-89
HARDIN / 42	Alden, Buckeye, Eldora, Hubbard, Iowa Falls, Radcliffe, Steamboat Rock, Unincorporated Area	4-1-96	WINNESHIEK / 96	Story City	10-1-90
	Ackley, New Providence, Owasa, Union, Whitten	1-1-97		Decorah	4-1-91
HENRY / 44	Coppock, Hillsboro, Mount Pleasant, Mount Union, New London, Olds, Rome, Salem, Westwood, Winfield	10-1-95	WOODBURY / 97	Calmar, Castalia, Fort Atkinson, Jackson Junction, Ossian, Ridgeway, Spillville, Unincorporated Area	7-1-91
	Wayland, Unincorporated Area	1-1-96		Bronson, Cushing, Merville, Oto, Salix, Sergeant Bluff, Sioux City, Sloan	1-1-87
				Anthon, Correctionville, Danbury, Hornick, Lawton, Pierson, Smithland, Unincorporated Area	10-1-88
			WORTH / 98	Fertile, Grafton, Hanlonton, Joice, Kensett, Manly, Northwood	1-1-97